

Message Text

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PAGE 01 QUITO 05944 162109Z

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ACTION ARA-20

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FM AMEMBASSY QUITO

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E.O. 11652: N/A

TAGS: EFIN, EC

SUBJECT: GENERAL MANAGER OF CENTRAL BANK RESIGNS

1. SUMMARY: GENERAL MANAGER OF CENTRAL BANK, EDUARDO LARREA STACEY, RESIGNED NOVEMBER 7 AND WAS REPLACED FOLLOWING DAY BY HIS DEPUTY, GERMANICO ESPINOSA. RESIGNATION WAS PRIMARILY RESULT OF PERSONALITY CLASHES BETWEEN LARREA AND MEMBERS OF THE MONETARY BOARD, AND IT DOES NOT APPEAR TO PRESAGE ANY IMMEDIATE MAJOR CHANGES OF POLICY. SOME OBSERVERS FEAR, HOWEVER, THAT OVER LONGER RUN LARREA'S DEPARTURE WILL REDUCE INFLUENCE OF CENTRAL BANK AND WEAKEN GOE'S STAND AGAINST INFLATION. END SUMMARY.

2. NOVEMBER 7 RESIGNATION OF CENTRAL BANK GENERAL MANAGER LARREA STACEY WAS EXPLAINED TO PRESS AS A CONSEQUENCE OF MONETARY BOARD CRITICISM OF HIS DECISION TO SELL ABOUT \$4 MILLION OF ECUADOR'S GOLD RESERVES AT \$35 PER OZ. IN MAY 1972 (REPEAT 1972) IN ORDER TO REPAY BORROWINGS FROM IMF. LARREA'S PUBLIC EXPLANATION OF THIS DECISION MADE DURING HIS FIRST MONTH IN OFFICE IS UNCONVINCING. NEVERTHELESS, ISSUE APPEARS TO BE CONVENIENT EXCUSE RATHER THAN PRINCIPAL CAUSE OF RESIGNATION.

3. AS BEST WE CAN PIECE STORY TOGETHER, MONETARY BOARD, LED BY ITS CHAIRMAN JAIME JORILLO, HAD GROWN WEARY OF DOING BATTLE WITH LIMITED OFFICIAL USE

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PAGE 02 QUITO 05944 162109Z

LARREA OVER LONG SERIES OF ISSUES, AND LARREA HIMSELF HAD DECIDED

LONG AGO TO RESIGN BY EARLY 1974. HIS COLLEAGUES UNANIMOUSLY DESCRIBE LARREA AS STUBBORN AND UNCOMPROMISING ONCE HAVING MADE UP HIS MIND. HE IS PRAISED FOR DOGGEDLY DEFENDING THE INDEPENDENCE OF THE CENTRAL BANK AND FOR PUTTING ANTI-INFLATIONARY POLICY FOREMOST. HE IS CRITICIZED FOR BEING SLOW, NEGATIVE, AND OUT OF STEP WITH THE TIMES. IT IS GENERALLY AGREED THAT, THOUGH HONEST AND FORTHRIGHT, HE WAS AN UNUSUALLY DIFFICULT MAN TO WORK WITH, AND HE COULD NOT LAST FOREVER IN A SENSITIVE JOB. MORILLO PROBABLY WORKED FOR LARREA'S OUSTER, AND LARREA'S DEPUTY AND SUCCESSOR, GERMANICO ESPINOSA, MAY HAVE DONE SO AS WELL.

4. THE CHIEF EFFECT OF LARREA'S DEPARTURE WILL PROBABLY BE TO STRENGTHEN MORILLO'S CONTROL OVER THE CENTRAL BANK. ESPINOSA IS A FRIEND OF MORILLO AND PERHAPS THE YOUNGEST MAN TO BECOME CENTRAL BANK GENERAL MANAGER. ESPINOSA RARELY IF EVER DISAGREED WITH LARREA PUBLICLY, AND HIS VIEWS ON MONETARY POLICY ARE NOT WELL KNOWN. MOST OBSERVERS ARE NOT SURE HE HAS THE STRENGTH OF PERSONALITY THAT THE JOB REQUIRES.

5. NO MAJOR POLICY ISSUES WERE INVOLVED. ONE EXPERIENCED CENTRAL BANK OFFICIAL THOUGHT THAT LARREA WAS ABOUT TO PRESENT THE MONETARY BOARD WITH A PLAN TO BROADEN THE FREE FOREIGN EXCHANGE MARKET BY INCLUDING IN IT ALL FOREIGN EXCHANGE TRANSACTIONS EXCEPT THOSE IN THE PETROLEUM SECTOR. LARREA WOULD HAVE CONTINUED CENTRAL BANK INTERVENTION TO STABILIZE THE EXCHANGE RATE AT OR NEAR THE PRESENT LEVEL. IT IS TOO SOON TO TELL WHETHER SUCH A PLAN WILL GO FORWARD WITHOUT LARREA. IN LATE OCTOBER THE CENTRAL BANK WAS FORCED TO CEASE SELLING STABILIZATION BONDS, ONE OF LARREA'S PET ANTI-INFLATIONARY DEVICES, BECAUSE THESE 90 AND 180 DAY BONDS HINDERED THE SALE OF LONG-TERM STATE BONDS. HOWEVER, WE BELIEVE THIS STEP IS TEMPORARY, HENCE NOT SUFFICIENT BY ITSELF TO FORCE LARREA'S RESIGNATION. ALTHOUGH WE SEE NO IMMEDIATE POLICY CHANGES, WE EXPECT GREATER DISPOSITION TO INNOVATE IN MONETARY AND FOREIGN EXCHANGE MATTERS.

6. THE NEW DEPUTY GENERAL MANAGER HAS NOT YET BEEN NAMED. BREWSTER

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Message Attributes

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